


Cabinet 28 th July 2015	 TOWER HAMLETS
Report of: Chris Holme, Interim Corporate Director of Resources	Classification: Unrestricted
Strategic and Resource Planning 2016-17 to 2018-19	

Lead Member	Councillor David Edgar, Cabinet Member for Resources
Originating Officer(s)	Chris Holme, Interim Corporate Director of Resources Barry Scarr, Interim Service Head, Finance & Procurement Louise Russell, Service Head, Corporate Strategy & Equality Ekbal Hussain, Head of Financial Planning & Corporate Business Partner
Wards affected	All wards
Key Decision?	Yes
Community Plan Theme	One Tower Hamlets

Executive Summary

On 5 March 2015, the Council agreed a balanced budget for 2015/16 and a Medium Term Financial Plan (MTFP) that showed a budget gap of £25m in 2016/17 and a further £15m in 2017/18.

Since then there have been a number of changes both nationally and locally including;

- The election of a new Executive Mayor in Tower Hamlets and new mayoral priorities
- The election of a Conservative Majority Government and the potential acceleration of deficit reduction plans
- Government announcements on further Welfare Cuts and in-year savings from Public Health Budgets
- The Chancellors emergency budget announcements on the 8th July 2015
- The decision to disaggregate Education, Social Care, and Wellbeing (ESCW) into separate Adults and Children's Services Directorates
- The securing of £7m Local Enterprise Funding (LEP) for economic development investment in the Borough via the new homes bonus topslice.

This report begins to look at the implications of these changes, and other pressures, and the impact they may have on the Council's budget and Strategic Plan

for 2015/16, as well as over the MTFP which has now been extended to include initial assumptions for 2018/19.

Initial assessments show that the total savings gap between 2016/17 and 2018/19 is estimated to be £63m which would require an average of £21m of savings to be delivered each year. The report explores different phasing options and suggests a timetable for developing and delivering savings.

The Government elected in May 2015 confirmed its intention to accelerate deficit reduction plans and have thus far announced a £12bn reduction in welfare benefits and a £200m in-year cut to public health budgets. As a result, the Council could lose £2.3m of the Public Health Grant in 2015/16.

The first comprehensive spending review (SR15) of this parliamentary term is expected in autumn 2015. There is a chance that local government funding could be squeezed even further than expected and further Cabinet reports will update assumptions if necessary.

The Outline Strategic Plan for 2015/16 was agreed by Cabinet in January 2015, however, following the election of Mayor John Biggs in June 2015, an updated plan is being developed which will reflect the manifesto commitments of the new Mayor.

Recommendations

The Mayor in Cabinet is recommended to:

1. Note the budget adjustments for 2015/16 to reflect new growth pressures and mayoral priorities (paragraph 3.3.4 and 3.3.5).
2. Note the additional funding secured by the authority through the Local enterprise partnership (LEP)
3. Agree spending plans that have been approved by the GLA (Appendix 1) (paragraph 3.3.7 to 3.3.10).
4. Note that through the 2014/15 closure process £7.5m uncommitted new homes bonus (NHB) has been set aside to fund replacement of social housing (paragraph 3.6.6).
5. Consider options to set aside additional NHB to fund more affordable homes as part of the budget process in 2016/17 (paragraph 3.6.8).
6. Agree the Strategic Plan for 2015/16 (Appendix 5).
7. Note that the financial outlook over the MTFP has been extended to include assumptions for 2018/19 and a total savings target of £63m between 2016/17 and 2018/19 is the current working target (Appendix 3).
8. Note that the financial position is subject to volatility and that development's in Government policy following SR15 and their implications on MTFP planning assumptions will be monitored closely and reported back at regular intervals during the financial year as part of the budget process.

1. REASONS FOR THE DECISIONS

- 1.1 The authority is under a duty to set a balanced and sustainable budget and needs to plan the use of resources in such a way that it can deliver its statutory responsibilities and priorities as well as meeting local people's aspirations
- 1.2 A Medium Term Financial Plan is required to enable financial pressures and risks to be modelled, allowing resourcing decisions to be made in a planned and structured manner. This is especially pertinent when overall resources are reducing, and unaffordable spending commitments need to be avoided

2. ALTERNATIVE OPTIONS

- 2.1 The authority has no practical alternative other than to deliver services within available resources while ensuring value for money in the use of these resources and managing risks through effective financial planning. Any decision not to develop options to address future spending reductions would have serious ramifications for the Council. The authority can take alternative approaches to how it sets about the process, for example of finding savings or providing in the budget for possible risks.

3. DETAILS OF REPORT

3.1. Background

3.1.1. The medium term financial planning process is an essential part of the authority's resource allocation and strategic service planning framework. The MTFP integrates strategic and financial planning over a three year period. It translates the Strategic Plan priorities into a financial framework that enables the Mayor and officers to ensure policy initiatives can be delivered within available resources, and can be aligned to priority outcomes

3.1.2. The drivers for the Council's financial strategy are:

- To set a balanced budget over the life of the MTFP whilst protecting residents from Council Tax increases as far as possible.
- To fund priorities agreed within the Strategic Plan and Mayor's Manifesto, ensuring that service and financial planning delivers these priorities.
- To deliver a programme of planned reviews and savings initiatives designed to keep reductions to service outcomes for residents to a minimum
- To maintain and strengthen the authority's financial position so that it has sufficient reserves and balances to address any future risks and unforeseen events without jeopardising key services and delivery of service outcomes for residents.
- Ensuring the Council maximises the impact of its spend to deliver priority outcome

- 3.1.3. Since 2011/12, when faced with unprecedented reductions in Government funding and increasing demand on services, the need to make savings has dominated the Council's financial planning process. With the election of the new Conservative majority government in May 2015, this trend is set to continue at least until 2018/19.
- 3.1.4. During the financial years from 2011/12 to 2014/15 the Council has successfully delivered over £90m savings to ensure it has a balanced budget and is currently on target to deliver a further £28m in 2015/16.
- 3.1.5. The Council agreed a balanced budget for 2015/16 and a Medium Term Financial Plan (MTFP) that showed a budget gap of £31.7m in 2016/17 and a further £17.9m in 2017/18, before use of reserves (see Appendix 2).
- 3.1.6. This report confirms the budget position for 2015/16 and begins to explore and address the challenges facing 2016/17 and beyond.

3.2. **Strategic Approach**

- 3.2.1 The Council has a well-embedded approach to strategic and resource planning (SARP). Key priorities are agreed with residents and partners in the Community Plan and these are reflected in a set of strategic objectives in the Council's Strategic Plan, which is annually refreshed.
- 3.2.2 The Strategic Plan sets out the Council's approach to delivering the key Community Plan priorities of achieving:
- A Great Place to Live
 - A Healthy and Supportive Community
 - A Prosperous Community
 - A Safe and Cohesive Community; and
 - One Tower Hamlets
- 3.2.3 Following the election on June the 11th of a new Executive Mayor, the 2015/16 Strategic Plan has undergone a review to align the key activities and initiatives, proposed for this year, with the Mayor's manifesto commitments.
- 3.2.4 Notwithstanding the need to manage within a very challenging financial context, the Council remains focused on delivering these key priorities. Specifically the Mayor has made clear those priorities that he wishes to see reflected in the allocation of Council resources during 2015/16, namely:
- Support and services for older residents
 - Protecting Early Year's Services
 - Increasing the supply of affordable social housing
 - Delivering programmes of skills development, employment and enterprise activity

3.2.5 In addition to this, the Mayor has also asked officers to fundamentally challenge how the Council delivers its business so that the following principles are embedded in the way we work:

- Work in strong partnerships with other public sector bodies in the borough and across London; the third sector and local businesses.
- Employ a workforce that fully reflects the community it serves
- Ensure its staff are never paid below the London living wage and that our home care contracts meet the Unison Ethical Care charter.
- Minimise job losses and promote career development
- Fully open its supply chain to local suppliers

3.2.6 Key proposed activities for 2015/16 within the context of these key principles and the manifesto commitments are set out in full in the Strategic Plan at Appendix 5 to this report, include:

- The delivery of 1,000 Council homes
- Developing a set of standards or scorecard to review performance of Registered Providers and Tower Hamlets Homes
- Developing options to enhance public realm cleanliness, including ways to reduce fly tipping, reviewing bulky waste charges, and residential provider management
- Developing an Open Space Strategy
- Exploring options for increased regulation to improve conditions in the private rented sector
- Providing free school meals for all primary school children
- Review early years' provision (including nurseries, pre-schools, childminders, children centre services, and non-statutory provision delivered by the Early Year's Services) with a view to provide more services across the borough and reduce the cost of childcare.
- Bring together public sector employment and job brokerage services, create a new integrated employment centre and undertake a review of Skillsmatch
- Support young people to overcome hidden barriers into work, including developing a job readiness qualification, recognised by employers.
- Work with local residents and traders to develop a vision for High Streets and Town Centres in Roman Road West, Watney market, Chrisp St, Brick Lane, Bethnal Green Road and Whitechapel.
- Work with residents and partners to develop local safety area actions plans for crime hotspots
- Complete a review of the options for returning 'Old Flo' back to the borough
- Undertake a 'beginning of life review' of all services to improve integration and outcomes for early years' health
- Review current leisure provision and explore new facilities, including a Lido in Victoria park
- Review home care contracts, to consider how they can meet the Unison Ethical Care charter, in relation to visit times, contract type and payment for travel time.

- Establish Cabinet Commissions, to develop the Council's approach to social cohesion and to better understand and support the Somali community.
- Improve transparency of decision making by engaging more residents and community leaders in policy and budget changes.

3.2.7 The Strategic Plan presented with this report demonstrates how these key activities will be delivered during 2015/16.

3.3. Spending Priorities for 2015/16

3.3.1 On the 5th March 2015 Full Council agreed a balanced budget for 2015/16. This comprised a net General Fund budget of £291.4m with provisions for growth, inflation, savings and the use of general reserves as follows:

- £8.7m allocated for in year growth pressures
- £5.5m allocated to cover inflationary pressures on contracts and salaries
- Savings of £28m approved as part the budget process
- A further £8.5m allocated from general reserves to avoid the need for any further savings in 2015/16 and to ensure the budget remains balanced

3.3.2 During the first quarter, the outlook for 2015/16 remains broadly balanced and allocations for Growth and Inflation are being held centrally to be awarded to directorate budgets as they materialise. The assumptions remain that growth and inflation can be contained within current provisions.

3.3.3 The savings programme is also being closely monitored and is currently reported to be on track to deliver agreed proposals for 2015/16. However, a number of risks have been identified but these are being closely monitored and will be reported through the in-year budget monitoring process.

3.3.4 The Strategic Plan will set out how the Mayor's priorities and Manifesto will be delivered, but there is a need to reallocate some resources in 2015/16 to reflect Mayoral priorities and legislative changes. Thus Investment is proposed in the following areas:

		2015/16	Full Year
		£000	£000
Corporate			
Budget for Chief Executive	1	100	200
Budget for Speaker	2	20	20
Adults and Childrens			
Director of Adults plus support	3	95	175
Service Head Commissioning	4	50	84
Independent Review Officers (Growth)	5	289	289
Support for Safeguarding Adults (Growth)	6	124	124

Investment in Priority Areas

Domestic bulky waste	7	150	150
Safe cycle storage	8	11	
24 hours noise service	9	75	110
Somali Community Engagement and promoting cohesion	10	50	50
Inter-generational Events (community cohesion)	11	50	50
Public Meetings	12	25	25
Victoria Park Fire Works event*	13	150	150
Street Cleansing	14	200	200
Total		1,389	1,627

*Officers have been asked to review alternative commercial options for this.

1. The Council has re-established the post of Chief Executive and recruitment is currently underway. The 2015/16 budget removed the funding for the post, and it now needs to be re-instated.
2. The office of the Council Speaker is one of vital importance to the Council, both through its responsibilities but also by representing the traditions and history of the borough. The Speaker is responsible for ceremonial duties, as well as being an ambassador for the borough. The Speaker currently has no budget to enable the office holder to carry out their duties and functions as befits their role. This funding will enable them to host events, undertake further civic engagements and make connections with people across the borough.
- 3-4. The disaggregation of ESCW requires a second Director's post for which there is currently no funding in place. It also requires the reinstatement of the budget for Service Head Commissioning post deleted from the 2015/16 budget.
5. We consulted with staff about the proposal to make changes in our Independent Reviewing Officer service so that it no longer reviews Child in Need (CiN) cases. During the consultation a large number of representations were received and concerns were raised about the knock on effect to other staff in Children's Social Care. Taking into account the consultation we have agreed that we need to review the way we manage CiN cases as part of a bigger piece of system redesign work using learning from the Signs of Safety practice framework. As a result it is not possible at this time to implement these savings.
6. Similarly, the budget decision to reduce the safeguarding adults' service has been re-examined, and will now not to be implemented. Part of the work of adult safeguarding relates to Deprivation of Liberty Safeguards (DoLS) which is a statutory process under the Mental Capacity Act 2005, where the Council as a supervisory body must approve any request to restrict the freedom of a person without

mental capacity to consent in a care home, hospital or supported living. A Supreme Court judgement in 2014 significantly increased the scope of the DoLS process, which has led to a dramatic rise in the number of authorisations being requested. In 2013-14 Tower Hamlets processed 28 DoLS authorisations; this number has increased to 585 in 2014-15, a 20-fold increase.

7. The council currently levies a charge for the collection of Bulky waste and it is widely believed that this contributes to the increase in fly-tipping within the borough. The mayor is keen to address this blight in the borough and has undertaken to remove this charge so that there is no longer a barrier preventing residents from disposing of bulky waste in a safe and responsible manner.
8. Cycle theft is a growing nuisance within the borough and improving safe cycle storage facilities across the borough is an important step towards tackling this issue and making Tower Hamlets a leading borough for cycling and pedestrians.
9. There is currently great concern that residents are unable to satisfactorily report, or have resolved, noise complaints. As our borough grows and development increases, it will become ever more important that residents are provided the support they require to reduce noise pollution and disturbances. This funding will ensure the provision of a 24 hour noise service all weekend / every day of the week.
- 10-12. Engaging with all parts of the community and supporting community cohesion are key priorities for the mayor and thus additional investment is being proposed which will support a range of community engagement and cohesion projects:
 - Holding regular public meetings in the community so that the community can contribute towards policy and budget decisions more effectively;
 - Provide events that will promote cohesion and bring different groups of residents together, including across generations;
 - Ensure greater engagement with the growing Somali Community.
13. The fireworks events that were previously held in Victoria Park were very successful in helping to bring the community together in one large venue, as well as attracting visitors to the borough. It is proposed that the annual event is reinstated in Victoria Park and resources have been identified to enable that to happen.
14. Ensuring the borough is clean and litter-free is a priority for residents, which is why investment has been provided for an additional team of litter pickers. These will be flexibly deployed to areas about which the Council receives a high volume of resident complaints or where high footfall or particular events cause higher than usual levels of littering.

This will help ensure that cleanliness levels in the borough are raised to a level which residents find acceptable.

As well as the revenue priorities set out above, providing more housing which is affordable to local people is a key priority to ensure a cohesive, sustainable future for the borough and its residents. Proposals to support this are set out in the Capital section of this report.

3.3.5 The following savings and adjustments will be utilised in order to provide funding for these changes. Equality Assessments in relation to these proposals are included in Appendix 4.

		2015/16 £000	Full Year £000
LPG			
Mayor's Advisors/ office	15	300	350
Mayor's Car and salary	16	40	40
Uncommitted One Tower Hamlets budget (directed to Somali and Cohesion activities)	17	50	50
CLC			
Kobi Nazrul savings	18	100	100
Youth Service Efficiencies	19	250	250
Reverse growth for Additional Police funded by the deletion of the Chief Executive post	20	200	200
D&R			
Corporate match Funding	21	141	200
CORP			
Additional investment income	22	143	75
Accelerated Delivery Programme - uncommitted	23	400	-
ESCW			
Celebration Events (Reallocate part of the funding to inter-generational community cohesion events)	24	50	50
Total		1,674	1,315

3.3.6 A balance of £285k remains available and can be allocated to additional priorities during 2015/16. However, should all of the initiatives detailed in paragraph 3.3.4 above continue into 2016/17, additional savings of £312k will need to be identified.

Local Enterprise Partnership (LEP) Funding

3.3.7 In 2015/16 New Homes Bonus funding for London Boroughs was top-sliced in order to fund Local Enterprise Partnership priorities via the GLA. As a result, Tower Hamlet's New Homes Bonus allocation was reduced by £7m. Following a bidding process through London Councils the authority has been successful in securing this £7m back and spending plans agreed by the GLA are included in appendix 1 for information

3.3.8 The approved schemes are designed to encourage local enterprise in the borough, support local businesses and improve employment opportunities for residents. The confirmed allocation of £7m is for a programme of seven projects focusing on:

- Employment support for those furthest from the labour market;
- Skills and employment for parents;
- Support for businesses – entrepreneurs, marketing training for retail businesses, skills for growth sectors, access to supply chains;
- Support for high streets and town

3.3.9 The programme incorporates significant new investment on additional apprenticeships as part of a wider integrated employment project.

3.3.10 The authority will be required to report progress on each of these initiatives to the LEP at regular intervals and release of funding will be linked to agreed milestones.

3.4. **Current Outlook for the 2016/17 Budget**

3.4.1 The Government's 2014 autumn statement and subsequent Local Government Finance Settlement confirmed local government funding for 2015/16, but no indication was given of the level of funding for 2016/17 due to the general election. The Autumn Statement and subsequent March Budget identified overall nation control totals relating to government expenditure for 2016/17 onwards.

3.4.2 The reported 2016/17 position makes the following key planning assumptions:

- A continued reduction in revenue support grant from 2016/17
- The £7.021m topslice of NHB funding will be ongoing
- Local tax base income to increase by approximately 2% over the period of the MTFP, with adjustments for known growth (e.g. cross rail).
- Appropriate utilisation of general reserves to smooth out the savings profile, whilst ensuring they do not fall below £20m

3.4.3 The summary position for 2016/17, including provisions for other growth and inflation, is detailed in the table below:

3.4.4 The net estimated general fund requirement reported at March 2015 Council for 2016/17 is £296.716m with a total funding envelope of £264.990m available through RSG, Council Tax and Business Rates.

Summary Draft Budget 2016/17	2016/17 £'000
Net Service Costs	291,362
Growth	7,949
Inflation	5,500
Other Adjustments	(8,095)
Total Funding Requirement	296,716
Government Funding	(66,879)
Retained Business Rates	(126,202)
Council Tax	(71,909)
Total Funding	(264,990)
Budget Gap (excluding use of Reserves)	31,726

- 3.4.5 The approved MTFP assumes that £25m savings will be delivered for 2016/17, the balance coming from use of reserves. However, changes to the national picture and circumstances within the Council mean that demographic and service risk assumptions will be reviewed in more detail over the coming months and any significant changes identified, together with appropriate analysis and mitigating actions.
- 3.4.6 The Chancellor of the Exchequer made his Summer 2015 Budget announcement to the House of Commons on 8 July 2015.
- 3.4.7 The budget announcements revised overall Resources Departmental Expenditure Limits (DEL) and the reductions to overall government spending will now be lower than previously forecast. The impact of this is that deficit reduction plans have been extended by another year and the government now plans to run a Budget surplus by 2019/20 and not 2018/19 as proposed by the coalition Budget in March 2015.
- 3.4.8 The chancellor also confirmed that of the £37bn of savings that will need to be found over the next parliament, £12bn will come from reductions in welfare benefits, £5bn from addressing tax-related issues and the remaining £20bn will need to come principally from government departments including local government.
- 3.4.9 The emergency budget did not provide much detail about how this remaining £20bn will be shared across government departments and what the impact would be for local government – details of this will be set out at the spending review this autumn.
- 3.4.10 The NHS is set to receive an additional £8bn a year. Both the NHS and Education budgets will continue to be protected, and additionally Defence funding is set to increase. As a result, there is an increased risk that local government funding may have to bear a bigger share of the cuts.
- 3.4.11 There were a number of other specific changes announced in the summer budget which will have direct and indirect implications for Council resources

and these are listed below with an analysis of potential impact on Tower Hamlets:

- A range of welfare cuts announced, including a reduction in the welfare cap from £26k to £23k and changes to tax credits – Details and potential impact on residents is being analysed but this will no doubt have a significant negative impact on our residents.
- Discretionary Housing Payments funding will continue for the next five years – but the risk is that current levels of funding will be insufficient to meet demand that could increase further as a result of new welfare cuts announced.
- National Living Wage introduced – should have minimal impact on council budgets as we currently pay London Living Wage which is significantly higher.
- Social Housing Rents to be reduced by 1% - HRA income will be affected.
- Social tenants with household income £40k will have to pay a market rent - local authorities will be required to recover and repay the rent subsidy collected to the exchequer who plans to use the income as a contribution to deficit reduction plans. The complexity of such a scheme requires further consideration.
- Public Sector Pay increases will be limited to 1% for four years from 2016/17

3.4.12 The exact impact of these announcements on the Councils budget will require further analysis and will be reported back to cabinet through the budget setting process for 2016/17.

3.4.13 During the latter part of 2014, the council ran a high profile Your Borough Your Voice consultation to generate debate and raise awareness about the challenges facing the borough and the council and seek views on priorities to inform the new Community Plan and future budget planning. A wide range of methods were used including:

- meetings with a wide range of service user groups, third sector organisations and interest groups;
- Partnership and Community Ward Forum sessions;
- special events and stalls at markets and other events across the borough to ensure we heard from residents who are not engaged with the council on a regular basis;
- online survey publicised in East End Life and through the above events, seeking views to be provided to us online or by other methods;
- sample based survey conducted by MORI to provide robust quantitative evidence; and
- full day in-depth deliberative workshops with an independently recruited cross section of local residents looking at service priorities and savings options in detail.

3.4.14 This has provided insight into the views of local people, and continued priorities residents afford to good housing, high quality public realm,

community safety, employment and cost of living issues. Top priority for protecting form savings were:

- Services for vulnerable older people and children;
- Affordable housing;
- Services supporting people into work; and
- Services to tackle crime and anti-social behavior.

3.4.15 Not surprisingly, when given the opportunity to consider ways the Council might make savings, there was a strong preference to look for efficiencies rather than reduce services wherever possible. The top areas identified were;

- Better joint working and shared services with other councils
- Delivering services online

3.4.16 Other ideas which received support were:

- Internal service amalgamation;
- Commissioning from the private sector – although concerns were expressed about the responsiveness of some private sector providers;
- Reducing administration costs through better use of ICT;
- Increased charges for planning, commercial waste, parking permits and fines; and
- Individuals taking more responsibility, eg re living healthily.

3.4.17 The Council recognises that a more structured approach to transformation needs to be implemented for medium term savings benefits realisation. Recent uncertainty surrounding the Council has been resolved, and time will be required to plan and deliver a series of projects that will deliver maximum efficiency while still delivering excellent services. A number of workstreams are being developed based on previous research in the Council, and what is happening elsewhere in the sector:

- Better targeting – the right people at the right time;
- Re-designing services for better outcomes - including working with partners and across organisations
- Empowering communities and citizens
- Harnessing economic growth
- Organisational economies – streamlining, rationalisation, new delivery channels including online

3.4.18 As a result, it is likely that the savings target for 2016/17 will be nearer £15m as opposed to the previous estimate of £25m referred to in paragraph 3.4.5 above, with reserves being used to smooth the balance. This is because of planning time that will be required, and the fact that some projects will deliver only part year effects in 2016/17. This will reviewed once the results of the 2015 Spending Review are made known.

3.4.19 Planned levels of reserves are also higher than expected. Robust financial management and delivery of previous years savings has left the Council with

a healthy balance sheet. The current reserves strategy for reduction to £20m will also be reviewed as part of the planning process.

3.4.20 It is proposed to undertake a programme of further public engagement during summer and early autumn on the savings proposals and, more generally, on residents' views about local priorities and how the Council can continue to deliver these priorities with a reducing budget. The consultation will seek views on savings proposals and their likely impact on services, in particular those with potential impact on groups with protected equality characteristics. The findings of this consultation activity will be presented back to Cabinet to inform final decision making.

3.4.21 The unprecedented scale of government funding reductions will inevitably mean that staffing efficiencies will be a necessary part of any budget strategy for 2016/17, in accordance with existing lean principles.

3.4.22 The proposed timetable for reporting MTFP, Strategic Plan and Budget to Cabinet is as follows:

Month	Activity
October/November	Update planning assumptions following spending review in autumn 2015 (SR2015) Extend MTFP to 2018/19 Develop specific savings proposals and transformation projects Provide EQIAs for specific savings opportunities and seek approval for their further development
December/January	2016/17 budget report Outline Strategic Plan 2016/17 Final options for filling the 2016/17 gap
February	Budget setting and report to Full Council
March	Strategic Plan Delivery Plan 2016/17 to Cabinet

3.5. MTFP 2016/17 to 2018/19

3.5.1 The Council's overall financial position at the beginning of 2015/16 is healthy. The budget process for 2015/16 delivered a balanced budget with significant savings (£28m). The 2014/15 position was on target, generating a small (£6m) contribution to general fund reserves. This is a solid foundation for entering the next stage of public spending reductions.

3.5.2 Government grant projections in the MTFP were based on national totals announced in the 2014 Autumn Statement. These spending plans were verified in the 2015 budget, which although presented as a Coalition budget, the plans were closely aligned with Conservative policy.

- 3.5.3 Although the current MTFP represents current overall spending plans, what was not clear at the time was the pace and phasing of the savings – referred to as a roller-coaster ride by the Office for Budget Responsibility.
- 3.5.4 This has subsequently been revised to signal a smoother ride to the projected end of austerity by phasing cuts over three years rather than two. While the exact impact on local government will not be known till the spending review in autumn, it would be prudent to assume that local government will be hit hard, particularly with Education and NHS budgets continuing to be protected and growth approved for defence budgets.
- 3.5.5 Current assumptions show that Revenue Support Grant (RSG) is expected to reduce by approximately 30% year on year, and it is estimated that if this trend continues, RSG could disappear as a funding stream by 2020.
- 3.5.6 2020 will also see the reset of the business rates base. Unless the way in which the baseline is calculated is changed fundamentally, there is a real danger that Tower Hamlets could lose business rates that had previously been retained, as well as becoming a tariff authority rather than remaining a top-up authority.
- 3.5.7 Furthermore, there are a number of other factors which could significant impact on the MTFP in 2016/17 and beyond and these include:

Negative Variables:

- Demographic growth, particularly concerning school pupil numbers, social care client numbers and waste management;
- Implementation of the Care Bill;
- Ongoing cost to the Authority of the Welfare reform programme particularly homelessness services;
- Potential increases in the bank of England base rate, which would increase the cost of borrowing

Potential positive variables:

- Continued Growth in the borough's domestic and business tax base as a result of on-going development in the borough;
- Devolution of powers and resources, and combining funding with partners;

Neutral variables (those which equally may be positive or negative):

- Funding distribution between local authorities, which could either be positive or negative
- Economic variables such as inflation and pay awards, which could go up or down

- 3.5.8 Taking these factors into consideration, it is estimated that the three year funding gap to the end of 2018/19 will be £63m and a draft revised MTFP is presented in Appendix 3. There are number of factors that could change this, the major one being the spending review in autumn 2015. The phasing of the

savings in order to fill this gap, and the way in which reserves can be used also need to be considered once more details become known.

3.5.9 It is also worth noting that the new homes bonus topslice to fund LEP activities, detailed in paragraphs 3.3.7 – 3.3.10, is currently assumed to be ongoing. However, should that not be the case, there will be scope to reduce the overall savings target or to fund future capital investments.

3.5.10 The potential for setting the savings target for 2016/17 at £15m has already been identified in the report (see paragraph 3.4.18). A likely scenario of a target of £30m for 2017/18, with the remaining £18m being delivered in 2018/19 seems optimum. This will be modelled and reviewed at further Cabinet meetings once the impact of the spending review has been assessed.

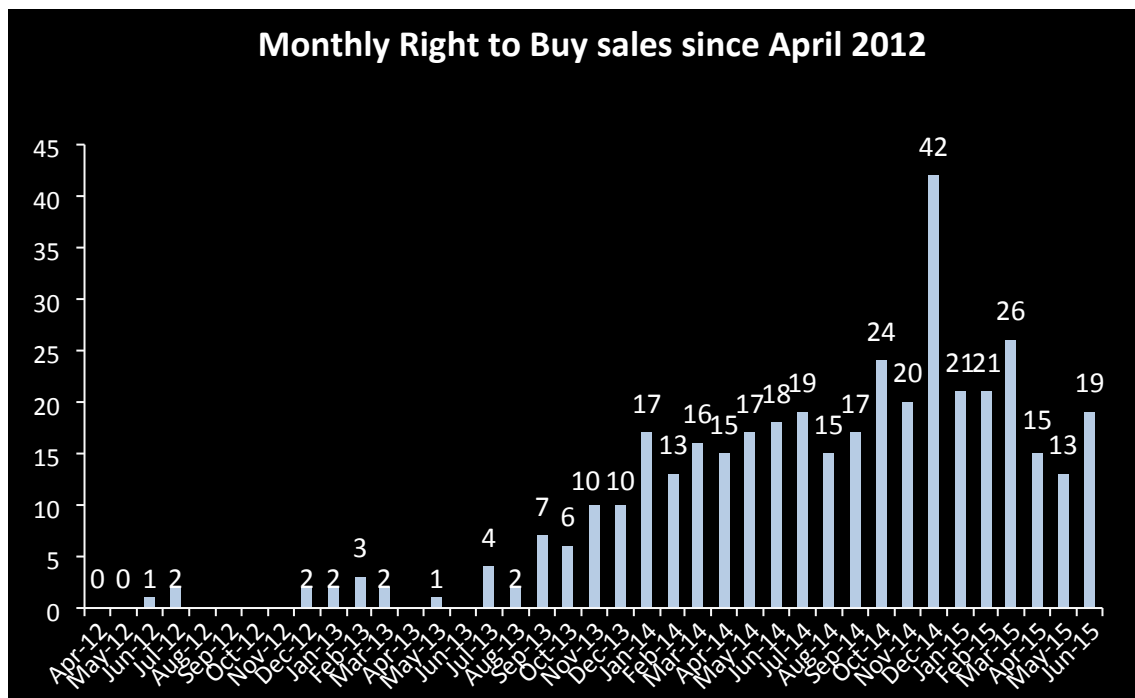
3.6. Capital Programme and Housing Revenue Account

3.6.1 During the financial year, the council through its Asset Management Board will review the asset and capital strategy in the context of significant demographic, service and financial changes that are likely between now and 2020. The Key driver for the revised asset strategy is a requirement to consider the long term location of the Town Hall.

3.6.2 As part of the 'Housing Revenue Account – Budget Report 2015/16', presented to Cabinet at its meeting on February 8th 2015, the changes to the Right to Buy scheme were discussed and the accumulating level of 1-4-1 receipts was highlighted as a risk to the HRA due to the various restrictions attached to the use of these receipts; the principle ones being that the receipts must be spent on replacement social housing within three years, can only constitute 30% of the funding, and cannot be used in conjunction with GLA or HCA funding. In addition, under HRA self-financing housing authorities are subject to a statutory debt cap which limits councils' ability to borrow as a means of financing the 70% scheme requirement. Finally if the authority is unable to spend the receipt within three years, the receipts must be repaid to the government with interest compounded at 4%.

3.6.3 At the time of the aforementioned report the Authority held cumulative 1-4-1 receipts of £19.8m, meaning that the total spend required within three years on replacement social housing was £66m, with the Authority having to fund 70% of this cost (£46.2m) from its own resources. The report detailed that as there were plans in place to use £5.2m of 1-4-1 receipts on the Poplar Baths & Dame Colet housing schemes, and a number of small new-build schemes, a balance of £14.6m of unallocated 1-4-1 receipts remained. Cabinet noted at its meeting on February 8th 2015 that £33m of (notional) resources had been included within the HRA capital programme to reflect the necessity to spend these unallocated 1-4-1 receipts, although it was stressed that any new build schemes would be assessed on a scheme by scheme basis with a detailed assessment made of their financial viability and affordability. Using £33m of current borrowing headroom would have major knock-on implications for capital works required on existing stock over the period of the HRA business plan.

3.6.4 The number of right-to-buy sales since April 2012 is shown below. Although they have reduced from their peak of December 2014, they are still approximately 20 per month, and there are currently upwards of 1,000 applications in the system.



3.6.5 At the end of March 2015, additional 1-4-1 receipts of £6.1m were added to the Authority's total, and it is anticipated that at the end of June c.£3.6m of 1-4-1 receipts will accrue. Therefore it is probable that there will shortly be a total of £24.3m of unallocated 1-4-1 receipts held by the Authority, necessitating spend on replacement social housing of £81m, and requiring a Council contribution of £56.7m (70%).

3.6.6 In light of the above, as part of the closure of the 2014/15 accounts, £7.5million of unallocated New Homes Bonus has provisionally been set aside and earmarked for contribution towards new supply to mitigate the risk of repayment to the Government. New Homes Bonus is non-ring-fenced and can be applied to support both General Fund and HRA expenditure.

3.6.7 Going forward it would be prudent to top-slice future NHB as a means of part-funding replacement affordable housing stock. The Council's financial strategy since 2010 has been, in effect to utilise the grant to support the MTFP, as its intention is to mitigate the additional costs of growth. However the longer term future of New Homes Bonus is unknown – it was only guaranteed for 6 years after its implementation. It currently supports some £20m of general fund revenue expenditure.

3.6.8 Top-slicing £5m each year for 2016-19, and earmarking it for new supply affordable housing, and contributing towards the Mayor's new council housing target, by supporting an additional £21.5m of housing development, could be

accommodated within the MTFP and still allow the Council to maintain general fund reserves above the prudential minimum of £20m at the end of the 3 year period, Formal agreement would be subject to Full Council.

- 3.6.9 Rethinking the use of New Homes Bonus will become all the more important, given the Chancellors budget statement to reduce social rents by 1% per year for the next 4 years, meaning a cumulative loss of rental income to the HRA to 2019/20 of over £20million taking account of inflation.
- 3.6.10 Members are asked to consider options to set aside additional NHB to fund more affordable homes as part of the budget process in 2016/17.

3.7 Equalities

- 3.7.1 As the budget process develops and plans are presented to Cabinet for approval, appropriate equality impact assessment will be carried out and the results reported. Equality Assessments in relation to the specific proposals that cabinet is being asked to approve in this report, as detailed in paragraph 3.3.5 above, are attached in appendix 4.

4 COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 4.1 The comments of the Chief Financial Officer have been incorporated into this report.

5 LEGAL COMMENTS

- 5.1 The report proposes consideration of a revised medium term financial plan. This is a matter that informs the budget process and may be viewed as a related function. It is, in any event, consistent with sound financial management and the Council's obligation under section 151 of the Local Government Act 1972 for the Council to adopt and monitor a medium term financial plan.
- 5.2 The report provides information about risks associated with the medium term financial plan and the budget. This is, again, consistent with the Council's obligation under section 151 of the Local Government Act 1972 to make proper arrangements for the management of its financial affairs. It is also consistent with the Council's obligation under the Accounts and Audit Regulations 2015 to have a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk. The maintenance and consideration of information about risk, such as is provided in the report, is part of the way in which the Council fulfils this duty.
- 5.3 The Council is a best value authority within the meaning of section 1 of the Local Government Act 1999. As such the Council is require under section 3 of the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness (the

best value duty). The setting of a medium term financial plan is one of the ways in which the Council can achieve best value.

- 5.4 The Council is required to consult for the purposes of deciding how to fulfil its best value duty. It must consult with representatives of council tax payer, business rates payers, persons likely to use services and persons appearing to have an interest in any area within which the Council carries out functions. As the adoption of a medium term financial plan is one of the Council's existing arrangements, it is arguable that consultation is not required prior to its amendment. However, best value consultation will likely be required at the time of preparing the 2016/2017 budget.
- 5.5 The report makes reference to right to buy receipts and how they are to be treated. They are capital receipts within the meaning of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and those Regulations generally require the Council to pay the amounts received to the Secretary of State on a quarterly basis. Late payments attract interest. However, pursuant to section 11(6) of the Local Government Act 2003, the Council may enter into an agreement with the Secretary of State to retain the whole or part of a capital receipt. Such an agreement was entered into in 2012 which specifies circumstances in which the Council is not required to pay specified capital receipts to the Secretary of State. This primarily covers a percentage of right to buy receipts received on or after 1 July 2012, subject to conditions.
- 5.6 The report also refers to the debt cap which applies in relation the housing revenue account. Section 171 of the Localism Act 2011 prevents the Council from holding debt in contravention of a determination made by the Secretary of State under that section. The Secretary of State made a formal determination in respect of Tower Hamlets in March 2015 through the London Borough of Tower Hamlets (Limits on Indebtedness) Determination 2015. The determination, which amends an earlier 2012 determination, imposes strict conditions on the use of the additional borrowing for capital expenditure.
- 5.7 It is proposed that Cabinet agrees the strategic plan for 2015/16. The plan contains 98 high-level targets. These headline targets appear capable of being carried out within the Council's statutory functions, but it will be for officers to ensure that each target is delivered within those functions, taking advice as necessary.
- 5.8 The report seeks approval for spending plans set out in Appendix 1. The seven projects appear capable of being carried out within the Council's statutory functions. However, it will be for officers to ensure that legal requirements are complied with, including obtaining any further approvals which may be required in accordance with the Council's constitutional requirements. If services are purchased, then that must be done in compliance with the Council's procurement procedures and the applicable requirements of the Public Contracts Regulations 2015. Care must be taken that any support provided does not contravene either the European

restrictions on State aid and does not give rise to any discrimination contrary to the Equality Act 2010.

- 5.9 When considering the medium term financial plan, any savings proposals and the strategic plan, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector equality duty). A proportionate level of equality analysis is required to inform the consideration required by the public sector equality duty. The report provides the borough equality analysis and sets out how equality impacts are addressed in relation to savings proposals. To the extent that savings proposals involve service changes which impact on individuals, consultation may be required to understand the impacts on those people.
- 5.10 Any consultation carried out for the purposes of either the best value duty or the public sector equality duty will need to comply with the following requirements: (1) it should be at a time when proposals are still at a formative stage; (2) the Council must give sufficient reasons for any proposal to permit intelligent consideration and response; (3) adequate time must be given for consideration and response; and (4) the product of consultation must be conscientiously taken into account. The duty to act fairly applies and this may require a greater deal of specificity when consulting people who are economically disadvantaged. It may require inviting and considering views about possible alternatives.

6 ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 The Mayor's priorities as set out in the Strategic Plan are focussed on tackling inequality in outcomes across different groups by supporting vulnerable people; developing a workforce that more closely reflects our community and identifying efficiencies within the council and new ways of working that best serve local residents. This is alongside the work to tackle the drivers of inequality in the Borough, including addressing poor housing and improving employment and community safety. These priorities have shaped the approach officers have taken to identifying and developing savings options. Officers have and will continue to assess the potential for these proposals to affect equality across groups who share protected characteristics in terms of residents and staff. This includes a thorough equality assessment approach to considering and reviewing implications of proposals on local communities by:
- Completing a first step screening assessment of all savings proposals to identify those likely to have an impact on services received by residents or on the number or grade of staff in a specific service
 - Undertaking a fuller equality analysis of those savings proposals where the screening has highlighted a potential impact on residents or staff to identify the effects in detail and on specific impacts on different groups.

- The results of the screening EAs and one full EA has highlighted that the proposals do not result in changes to current services. For the proposal to reduce corporate match funding that required a fuller EA the service has outlined mitigating actions to keep the potential impact under review.

6.2 The steps outlined above have been adopted to ensure that the Council's commitment to tackling inequality informs decision making throughout the strategic and resource planning process and to support transparency. The process also fulfils the Council's obligations under the Equality Act 2010 to show due regard to the need to eliminate unlawful discrimination, advance equality of opportunity and foster good relations between people who share specific protected characteristics, including age, disability, gender, marriage and civil partnership, pregnancy and maternity, race, religion/belief, sexual orientation and transgender identity.

6.3 The Strategic Plan 2015/16 incorporates the council's Single Equality Framework (SEF) priorities. These priorities were drawn from the Borough Equality Analysis included as Appendix 6 (an annually updated document which draws on research, data from services and the outcome of consultation with local stakeholders to identify the known areas of inequality for people from each of the protected characteristic groups in the borough). Actions to address each of these priorities have been incorporated into the Strategic Plan and supporting key corporate strategies.

7 BEST VALUE (BV) IMPLICATIONS

7.1 The Council is required to consider the value for money implications of its decisions and to secure best value in the provision of all its services. It is important that, in considering the budget, Members satisfy themselves that resources are allocated in accordance with priorities and that full value is achieved. The information provided by officers on committed growth and budget options assists Members in these judgments.

8 SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 The sustainable action for a greener environment implications of individual proposals in the budget are set out in the papers relating to those proposals.

9 RISK MANAGEMENT IMPLICATIONS

9.1 Managing financial risk is of critical importance to the Council and maintaining financial health is essential for sustaining and improving service performance. Setting a balanced and realistic budget is a key element in this process. Specific budget risks will be reported to Cabinet as the budget process develops.

10 CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 The crime and disorder implications of individual proposals in the budget are set out in the papers relating to those proposals.

11 SAFEGUARDING IMPLICATIONS

11.1 The safeguarding implications of individual proposals in the budget are set out in the papers relating to those proposals.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1 – Approved LEP schemes
- Appendix 2 – Approved current MTFP 2014-2018
- Appendix 3 – Draft refresh of the MTFP 2015-2019
- Appendix 4 – Equality Impact Assessments
- Appendix 5 – Strategic Plan 2015/16
- Appendix 6 – Borough Equality Analysis

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- NONE

Officer contact details for documents:

Or state N/A

Appendix 1: Approved LEP schemes

Theme	Project name	Total Rev+Cap)
High Streets	<p>Healthy High Streets Pilot Programme</p> <p>Tower Hamlets Council is developing a Healthy High Streets policy which will promote the 'health' of high streets and town centres in the borough in the broadest sense, to support their economic growth and vitality while ensuring they make a positive contribution to the health, wellbeing and quality of life of surrounding communities. Taking into account these places' multiple social, economic and civic functions, the policy will set out an approach to service delivery and regeneration in town centres</p>	£1,293,746 £1,000,000c
Business Support	<p>Supply Tower Hamlets</p> <p>The project will enhance the capacity of local businesses to supply through procurement processes. The Council will act as project manager and engage a specialist agency to deliver the project. The specialist agency will in turn ensure that there is sufficient support for local businesses from its staff, and external specialist consultants, for the required outputs to be achieved.</p>	£1,321,110
	<p>New Enterprise Support</p> <p>This project will support any Tower Hamlets resident who starts a business through training, consultancy support and an opportunity to win an enterprise grant. Similarly, an existing non-commercial (third sector) organisation in the borough which commences entrepreneurial activity can receive consultancy support to do so. Training and consultancy support will be provided by a number of specialist agencies and individuals, managed by LB Tower Hamlets, and any enterprise grant will be awarded only after approval has been given by a panel of independent experts.</p>	£1,215,752
	<p>Retail Marketing Support</p> <p>This project will support any Tower Hamlets resident who starts a business through training, consultancy support and an opportunity to win an enterprise grant. Similarly, an existing non-commercial (third sector) organisation in the borough which commences entrepreneurial activity can receive consultancy support to do so. Training and consultancy support will be provided by a number of specialist agencies and individuals, managed by LB Tower Hamlets, and any enterprise grant will be awarded only after approval has been given by a panel of independent experts.</p>	£555,825
	<p>Tower Hamlets Growth Sectors</p> <p>This project is designed to support the development in Tower Hamlets of businesses in the digital, creative, science & technology sectors, which are already growth sectors in the borough. Following on from existing evidence about factors holding back businesses in these sectors, the subject matter of the project relates to two specific shortages: suitable flexible workspace on the one hand, and local residents who are suitably qualified as employees and co-workers on the other. As far as methodology is concerned, the project proposes to deal with these shortages by involvement of the private sector, and brokerage, rather than by direct provision.</p>	£340,161
App, skills and training	<p>Working Start - Integrated Employment Programme</p> <p>Working Start is Tower Hamlets' intermediate labour market scheme and successor project to the Future Jobs Fund programme. The aim is to; target unemployed or economically inactive people and supports them initially into a paid 5 month work placement and then assisted to into employment or an apprenticeship, with an anticipated 80% finding sustainable employment. The format of the Working Start programme has proved to be successful, especially in terms of securing sustainable employment upon completion of the work placements.</p>	£978,685
	<p>Parental Engagement ILM Programme</p> <p>This is a pilot project designed to provide a package of support for residents to help them move into sustained employment. It is a collaborative programme between Tower Hamlets Council's Economic Development and Education, Social Care & Wellbeing services that aims to provide employment support from pre-employment engagement through to sustained employment, with access for beneficiaries to specialised support services from the two council divisions. This project can be adapted to target a particular group of residents experiencing a specific set of circumstances. In this case it is aimed at those affected by the Benefit Cap who are also currently receiving discretionary housing payment in Tower Hamlets.</p>	£315,749
		£7,021,028

Appendix 2: Approved MTFP 2014-2018

Summary Draft Medium Term Financial Plan 2014-18 - Approved Full Council 5th March 2015				
	2014-15	2015-16	2016-17	2017-18
	£'000	£'000	£'000	£'000
Net Service Costs	295,732	293,933	291,362	296,716
Earmarked Reserves (Directorates)	(804)	1,829	(331)	0
Contribution to/from Reserves	(1,498)	0	0	0
Growth , Inflation, Savings	503	(4,400)	5,685	8,010
Total Funding Requirement	293,933	291,362	296,716	304,726
Government Funding	(122,580)	(88,693)	(66,879)	(48,947)
Retained Business Rates	(105,566)	(117,960)	(126,202)	(132,052)
Council Tax	(66,396)	(69,815)	(71,909)	(74,066)
Collection Fund Surplus		(7,053)		
Total Funding	(294,541)	(283,521)	(264,990)	(255,065)
Budget Gap (excl use of Reserves)	(608)	7,841	31,726	49,661
Budgeted Contributions to Reserves	(1,034)	0	0	0
General Fund Reserves	1,642	(7,841)	(6,726)	(9,661)
Unfunded Gap	0	(0)	25,000	40,000
Savings to be delivered in each year		0	(25,000)	(15,000)
	31/03/2015	31/03/2016	31/03/2017	31/03/2018
Balance on General Fund Reserves (£000s)	66,631	58,790	52,064	42,404

Appendix 3: Draft Refresh MTFP 2015-2019

Savings evenly distributed

Medium Term Financial Plan Refreshed - 2015-2019				
	2015-16	2016-17	2017-18	2018-19
	£'000	£'000	£'000	£'000
Net Service Costs	293,933	291,362	292,499	302,154
Earmarked Reserves (Directorates)	1,829	(331)	0	0
Contribution to/from Reserves	0	0	0	0
Growth , Inflation, Savings	(4,400)	1,468	9,655	11,342
Total Funding Requirement	291,362	292,499	302,154	313,496
Government Funding	(88,693)	(68,110)	(50,411)	(33,984)
Retained Business Rates	(117,960)	(125,735)	(130,676)	(136,470)
Council Tax	(69,815)	(73,648)	(76,482)	(79,316)
Collection Fund Surplus	(7,053)	(1,074)	0	0
Total Funding	(283,521)	(268,568)	(257,570)	(249,770)
Budget Gap (excl use of Reserves)	7,841	23,931	44,584	63,726
Budgeted Contributions to Reserves	0	0	0	0
General Fund Reserves	(7,841)	(2,931)	(2,584)	(726)
Unfunded Gap	(0)	21,000	42,000	63,000
Savings to be delivered in each year	0	(21,000)	(21,000)	(21,000)
	31/03/2016	31/03/2017	31/03/2018	31/03/2019
Balance on General Fund Reserves (£000s)	63,559	60,629	58,044	57,319

Savings phased

Summary Draft Medium Term Financial Plan Refreshed - 2015-2019				
	2015-16	2016-17	2017-18	2018-19
	£'000	£'000	£'000	£'000
Net Service Costs	293,933	291,362	292,499	302,154
Earmarked Reserves (Directorates)	1,829	(331)	0	0
Contribution to/from Reserves	0	0	0	0
Growth , Inflation, Savings	(4,400)	1,468	9,655	11,342
Total Funding Requirement	291,362	292,499	302,154	313,496
Government Funding	(88,693)	(68,110)	(50,411)	(33,984)
Retained Business Rates	(117,960)	(125,735)	(130,676)	(136,470)
Council Tax	(69,815)	(73,648)	(76,482)	(79,316)
Collection Fund Surplus	(7,053)	(1,074)	0	0
Total Funding	(283,521)	(268,568)	(257,570)	(249,770)
Budget Gap (excl use of Reserves)	7,841	23,931	44,584	63,726
Budgeted Contributions to Reserves	0	0	0	0
General Fund Reserves	(7,841)	(8,931)	416	(726)
Unfunded Gap	(0)	15,000	45,000	63,000
Savings to be delivered in each year	0	(15,000)	(30,000)	(18,000)
	31/03/2016	31/03/2017	31/03/2018	31/03/2019
Balance on General Fund Reserves (£000s)	63,559	54,629	55,044	54,319